

PepsiCo, Inc.

US CORE HOLDING*

Recommended since 18.12.15

05.08.2022



Country	US	Market capitalization (bn)	USD	242.7	Perf. since reco. (%)	
Sector	Food & Beverage	Free float		99.7%	PepsiCo, Inc.	79.6
Factset	PEP-US	Closing price	USD	175.87	Sector	63.5
ISIN	US7134481081	ESG Risk score*	15.9	Low risk		

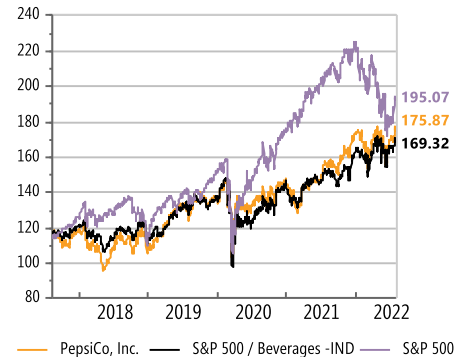
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

PepsiCo is a US multinational specialising in beverages (46% of revenues) and snack products (54%). The 2nd largest food company in the world and 1st in the USA in terms of turnover (\$67bn in 2019), the Group generates 62% of its revenues in North America, 16% in Europe and 22% in developing countries. PepsiCo is based in New York State and employs 267,000 people worldwide.

Market - competition - positions - barriers to entry

The Group has a portfolio of brands, 23 of which generate sales in excess of \$1bn each, the most well-known being: Pepsi, Pepsi Max, Diet Pepsi, 7UP, Diet 7UP, Mountain Dew, Doritos, Frito-Lay, Aunt Jemima, Cheetos, Quaker, Manzanita Sol, Gatorade, Aquafina, Lipton, Natura, Tropicana, Crush. Its eternal rival is the Coca-Cola company alongside Mondelez, Nestlé, Unilever, Dr Pepper Snapples, General Mills.



Source: Factset

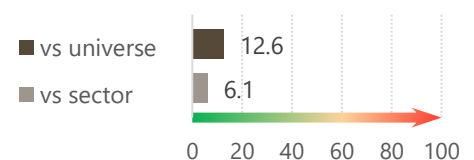
Investment case

- PepsiCo operates in two markets, Beverages and Snacks. Sales of soft drinks grew by +3.5% per year over 2010-17, driven by emerging markets, those of Water / Juice / Energy drinks by +5%/year, while in the US snack market (\$125 billion), PepsiCo markets 8 of the 46 most consumed products. Although the Group changed CEO in 2018 (Indra Nooyi->Ramon Laguarta), its performance remains solid. The group can rely on the dynamism of Snacks, international expansion and the relaunch of Beverages in the USA. The record investments made in 2019/2020 behind the brands (innovations, launches, advertising, pricing, cost-cutting) are bearing fruit and are made to last. The 2 largest brands Pepsi and Gatorade are doing better, innovations (Bubly, Zero variants) are helping to regain market share and Mountain Dew will capitalize on the acquisition of Rockstar to relaunch (synergies).
- PepsiCo ended the year 2021 on a good note. Beyond a sustained domestic consumption (off trade) and the reopening of bars/restaurants (on trade), the renewed dynamism of its international activities (+13%) is striking. In line with this, its commercial performance in H1 2022 was even better in terms of magnitude (+13% vs +8.1% estimated in Q2) and composition (price and volume increases), underlining the soundness of PepsiCo's strategy. The group is raising its 2022 organic sales growth target from +8% to +10%, while in the face of uncertainties (Ukraine, inflation, rising interest rates, economic slowdown), we understand its caution in targeting an EPS increase of +6% (impact of a stronger dollar of -2% on sales and EPS).
- While 2020 has emphasized the defensive nature of its portfolio positioned on waters, sodas, juices, chips, snacks and cereals...categories whose consumption has been less affected by the pandemic, we see that the quality of portfolio diversification, product innovation and brand strength allow the group to successfully pass through nice price increases. Commercial trends are still favorable (solid market in the US / rebound in international) and the group is intensifying its efforts to improve productivity (extension of the restructuring plan of \$1 billion/year until 2026 vs. 2023 before) in order to offset inflationary pressures and reinvest behind its brands. PepsiCo is giving itself the means to succeed and we consider that the stock should be favored in the face of a more uncertain economic and geopolitical outlook.

ESG - risks and key points

- The company is unlikely to experience significant financial impacts related to ESG factors due to its average exposure and good management of issues.
- Controversies (consumption and regulation of sugary products -> obesity and diabetes / use of palm oil and sugar in production -> human rights violations / use of water -> ingredients and manufacturing) are mitigated by programmes and above-average management of issues.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
176	196

Our scenario assumes US 10-year yields of 3.5%, with higher sales in 2020 despite the pandemic, which sharply accelerate in 2021, targeting 4% growth in 2025, and an EBIT margin rising 200 bps to 16.5% over this time frame, to normalize at this level over the long term.

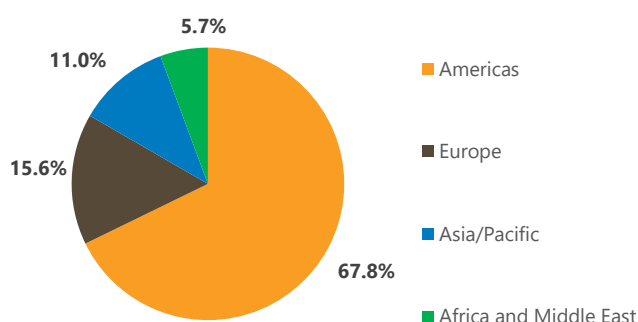
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	70'372	79'474	83'480	87'400	91'200
Sales growth %	4.8%	12.9%	5.0%	4.7%	4.3%
o/w organic	5.8%	8.5%	8.0%	5.5%	5.0%
EBITDA	13'079	14'124	15'060	16'400	17'800
% of sales	18.6%	17.8%	18.0%	18.8%	19.5%
EBIT	10'531	11'414	12'160	13'320	14'580
% of sales	15.0%	14.4%	14.6%	15.2%	16.0%
Adjusted EPS	5.52	6.26	6.62	7.25	7.95
Adjusted EPS growth	-0.1%	13.3%	5.7%	9.6%	9.6%
Capex/Sales	6.0%	5.8%	5.5%	5.1%	4.9%
Free cash-flow	5'496	6'673	7'384	8'564	9'684
FCF/Sales	7.8%	8.4%	8.8%	9.8%	10.6%
Dividend yield	2.3%	2.4%	2.6%	2.7%	2.9%
ROCE - WACC	9.4%	10.2%	10.6%	11.7%	12.9%
ROE (%)	56.7%	54.0%	45.1%	39.9%	37.3%
Net debt/Ebitda	264.5%	243.2%	211.6%	174.0%	143.4%
Gearing	253.5%	211.9%	155.5%	112.8%	86.0%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	PepsiCo, Inc.	S&P 500	
		Sector	Market
PE (x)***		Beverages	S&P 500
2021	28.1	26.1	21.2
2022e	26.6	26.2	18.5
2023e	24.3	24.2	17.1
P/B (x)***			
2020	15.1	7.0	4.5
2021e	11.9	6.8	4.0
2022e	9.6	6.3	3.6
Beta (2Y, daily) vs market:			0.52

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

Governance and ownership structure

Since 2018 Ramon Laguarta CEO.

Key shareholders (if any):

Vanguard 8.4%, Blackrock 5%, State Street 4.6%.

Agenda

10/04/2022: Q3 2022 results.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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